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## **Nigeria**

### **Cocoa**

## **Cocoa Situation Report**

### **2000**

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#### **Report Highlights:**

**Grower cocoa prices have fallen to a 5-year low and farmers complain that they are unable to cover production costs at prevailing producer prices. Post forecasts a 6 percent increase in the 2000/01 cocoa harvest to 180,000 tons with exports rising to 162,000 tons (bean equivalent).**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Unscheduled Report  
Lagos [NI1], NI

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## Executive Summary

Post forecasts Nigeria's 2000/01 cocoa production at 180,000 tons, up from 170,000 tons a year earlier. Although rainfall was late in arriving this year and erratic at the onset of the season, in general adequate precipitation was recorded in recent months and distribution pattern was favorable. Some cocoa fields rehabilitated and replanted with hybrid varieties have come into production. Pod development for this season's main crop is much better than noted a year earlier. Harvest activities will not commence until the second half of October and will extend through February 2001 because of the delay in the onset of this year's precipitation.

Producer prices fell by more than 50 percent during the 1999/2000 season because of a downturn in world market prices. The international market price for cocoa fell from \$1,300 per ton in early 1999 to \$767 in August 2000. Nigerian grower prices fell from 125,000 Naira per ton to 65,000 Naira over the same period. At the prevailing 65,000 Naira per ton price, growers maintain that they are unable to recoup their production costs. Industry sources indicate that if this situation persists, it could precipitate a downward trend in production. Growers are seeking price support from the Government. However, cocoa production and trade in Nigeria has been deregulated and farmers now receive little or no support from the Government.

The Government inaugurated a Cocoa Development Committee (CDC) in December 1999 with a mandate to develop a strategy for the revitalization of cocoa production. The 27-man committee submitted a cocoa development program to the Government which was approved for implementation. Please see the policy section of this report for details on this program.

Exchange Rate :       Naira 105 = US\$1

## Production

### Cocoa Beans

PSD Table						
Country	Nigeria					
Commodity	Cocoa Beans					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	430	430	430	430	0	430
Area Harvested	410	410	410	410	0	415
Bearing Trees	400000	400000	400000	400000	0	401000
Non-Bearing Trees	40000	40000	40000	40000	0	40000
TOTAL Tree Population	440000	440000	440000	440000	0	441000
Beginning Stocks	11529	6529	6529	6529	6529	6529
Main Production	125000	125000	135000	135000	0	140000
Mid & Other Production	30000	30000	35000	35000	0	40000
TOTAL Production	155000	155000	170000	170000	0	180000
Bean Imports	0	0	0	0	0	0
Liquor & Paste Imports	0	0	0	0	0	0
Butter Imports	0	0	0	0	0	0
Powder,Cake,Choc. Imp.	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	166529	161529	176529	176529	6529	186529
Bean Exports	130000	125000	125000	135000	0	140000
Liquor & Paste Exports	2000	2000	4000	4000	0	4000
Butter Exports	15000	15000	25000	16000	0	18000
Powder,Cake,Choc. Exp.	1000	1000	3000	2000	0	2000
TOTAL Exports	148000	143000	157000	157000	0	164000
Domestic Consumption	12000	12000	13000	13000	0	16000
Ending Stocks	6529	6529	6529	6529	0	6529
TOTAL DISTRIBUTION	166529	161529	176529	176529	0	186529

Post forecasts Nigeria's 2000/01 cocoa production at 180,000 tons, up from 170,000 tons a year earlier. The increase is based upon recently rehabilitated cocoa fields planted with hybrid varieties coming into production. Post field travel through the cocoa belt, especially the western region which accounts for approximately 90 percent of total Nigerian output, reveals that despite the late onset of this year's rains, precipitation overall did establish a favorable pattern. Tree pod development is much better than noted a year earlier. The main crop cocoa harvest, however, will

commence late in October rather than in September. Harvest activity is likely to peak in November and taper off by February 2001.

Cocoa is Nigeria's dominant agricultural export commodity. Although its contribution to total national export earnings has declined in relative terms in recent years, due largely to the enormity of foreign exchange earnings generated by the oil sector, cocoa remains Nigeria's leading non-oil foreign exchange earner. Nigeria, formerly the world's second largest cocoa producer, has slipped to fifth place. A number of agronomic and structural impediments impede the industry's efforts to regain the volume of production formerly enjoyed by Nigeria. Most cocoa trees are past their prime producing age and replanting activities are inadequate. The problem of over-aged trees is a critical factor that must be addressed if Nigeria's cocoa industry is to be revived. Cocoa trees typically begin to exhibit declining production after 18 - 20 years. At least 60 percent of Nigeria's cocoa trees are more than 30 years old.

## Area

Post's forecast for area planted in 2000/01 is unchanged from last season's at 430,000 hectares largely because of the non-availability of virgin lands. Expansion efforts are therefore focused on rehabilitating abandoned farms and replanting operating farms with early-maturing, disease-resistant and high-yielding hybrid cocoa varieties. Our forecast for area harvested in 2000/01 was increased to 415,000 hectares reflecting the expansion in the acreage of rehabilitated farms now entering production.

Nigeria's cocoa production is concentrated in the Western region, with Ondo and Ekiti States accounting for 60 percent of national output. Approximately 15,000 tons of Nigeria's crop is produced in Cross River and Akwa Ibom states in eastern Nigeria close to the Cameroon border. Cocoa farming in Nigeria is primarily a smallholder crop with an average farm falling below 2 hectares. Large-scale cocoa plantations in the country are restricted to state government-owned estates in Ondo, Cross River, Abia and Oyo States. Cumulatively, these estates total approximately 15,000 hectares. State Governments have subdivided the estates into production units ranging from one to ten hectares and leased them to private growers. This leasing arrangement has enabled these estates to become re-activated after many years of abandonment. Although each leasee harvests independently, growers turn part of their output over to the State Governments for marketing.

## Inputs

Chemical input utilization by cocoa farmers falls far below recommended levels. Chemicals are available in the market, but cash-strapped farmers find them costly and largely unaffordable. For effective control of cocoa pests and diseases, chemical spraying is recommended against black pod disease six times and against the capsid pest three times in a production cycle. Anecdotal reports suggest that despite recent heavy rainfall in the cocoa belt which increases the risk of black pod attack, farmers are reluctant to apply necessary chemicals at recommended levels for fear of incurring losses. Our forecast for the year's main crop output takes into consideration losses attributed to black pod disease. Most cocoa producing state governments have established agricultural input supply companies for the bulk purchase of these inputs and resale to farmers, in some cases at subsidized prices.

Farmers emphasize that production costs are rising rapidly. The table below shows this for key production factors.

**Farm Input Costs**

	1998	1999	2000
	-----NAIRA-----		
Per seedling	5	5	5
Insecticide/25 kg. Bag	1,000	1,000	1,200
Fungicide (Perenox)/25 kg. bag	3,000	3,500	3,600
Labor/man/day	250	250	300
Chemical field spray pumps	7,500	7,500	8,000
Fertilizer per 50 kg. bag	1,200	1,200	1,800

Source : State Agricultural Input Supply Companies and Cocoa Development Units

**Yield**

Available data indicates that average yields on farms planted with Amelonado trees are below 250 kilograms per hectare, while hybrid fields average 600 kilograms. These compare unfavorably with yields of up to 2 tons per hectare obtained on experimental farms and 1 ton per hectare recorded on well-maintained privately-owned farms in Nigeria. Yield improvement in Nigeria is handicapped by inadequate extension support services, lack of proper farm maintenance, low farm input utilization and old cocoa trees. The replanting of old trees will have to be pursued with determination to increase production in the long-run given that land availability for new planting is limited.

**Crop Quality**

Nigeria's ability to exercise quality control over the crop suffered following the dissolution of the Cocoa Board in 1986. However, cocoa quality has improved somewhat in recent years thanks to the insistence of overseas terminal markets on premium quality and price discounts applied to low-grade Nigerian cocoa. Major cocoa exporters do try to direct their domestic purchasing activity to high-quality cocoa in order to meet the requirements of foreign terminal market buyers. Overall, Nigeria's cocoa quality at present is far below what it was in the early 1980's and that offered by other West African exporting countries

State governments in cocoa producing regions have initiated campaigns directed at improving farm management, processing, storage and handling of cocoa. Jute bags are now readily available following the approval this year by the GON for duty-free importation. The International Cocoa Organization (ICCO) made the use of such bags mandatory, effective October 1, 1999.

**Price**

Cocoa production and trade in Nigeria is completely liberalized. Grower price levels are determined by movements in the international price and the exchange rate fluctuations for the local currency. The recent decline in the international

price triggered a downward spiral in grower prices from 125,000 Naira per ton in January 1999 to 65,000 Naira in September 2000. Ongoing industry efforts to revive the cocoa sector following the liberalization of Nigeria's cocoa trade in Nigeria in the mid-1980s are now threatened by a drop in grower returns resulting from the decline in prices.

### Prices Table

Prices Table			
Country	Nigeria		
Commodity	Cocoa Beans		
Prices in	Naira	per uom	Ton
Year	1999	2000	% Change
Jan	125000	80000	-36.00%
Feb	125000	80000	-36.00%
Mar	125000	80000	-36.00%
Apr	110000	78000	-29.09%
May	100000	78000	-22.00%
Jun	90000	70000	-22.22%
Jul	85000	68000	-20.00%
Aug	80000	65000	-18.75%
Sep	70000	65000	-7.14%
Oct	70000	N/A	-100.00%
Nov	80000	N/A	-100.00%
Dec	80000	N/A	-100.00%
Exchange Rate	N105/\$1	Local currency/US \$	

### Consumption

Nigeria's cocoa processing industry consists of 17 plants with a combined annual milling capacity of 220,000 tons of cocoa beans. This is adequate to process all the cocoa produced in Nigeria. Only six of these processing facilities, however, are currently operating. Together, they are working at less than 40 percent of their combined installed capacity. Total processing volume in 1999/2000 is estimated at no more than 35,000 tons, accounting for slightly less than 20 percent of national production. Cocoa farmers in Nigeria receive approximately 85 percent of world market prices, the highest return to growers in the region. High grower prices have a negative impact on processor returns. Cocoa processors have turned to toll milling as a means of increasing their capacity utilization.

In order to stimulate cocoa processing activity, the GON has approved Export Processing Factory (EPF) status for local processors. This exempts them from payment of taxes and other levies imposed by federal, state and local governments. Cocoa beans are processed locally into butter, powder and cake. Almost all cocoa butter, liquor and paste produced in Nigeria is exported. Domestic consumption of cocoa products (shown at 13,000 tons, bean equivalent in our PS&D for the 1999/2000 marketing season) consists almost exclusively of cocoa powder.

## Processing

Name of Processor	Installed Capacity	Utilized Capacity
Ebun Cocoa Industries	10,000	10,000
Stanmark Cocoa Processing, Ondo	10,000	9,000
Coop Cocoa Industries, Akure	10,000	5,500
Cocoa Industries, Lagos	30,000	5,500
Cocoa Processing Industry, Ede	30,000	2,000
Cocoa Products Company, Ile Oluji	30,000	3,000
Others	100,000	0
<b>Total</b>	<b>220,000</b>	<b>35,000</b>

## Trade

Government data on cocoa production and trade are unreliable. Post utilizes field observations along with inputs of producer and trade organizations for the compilation of our PSD estimates. Approximately 135,000 tons of cocoa beans were exported in bean form in 1999/2000. Additionally, we estimate that 22,000 tons (beans equivalent) were processed locally and exported as cocoa butter, cake and liquor. Another 13000 tons was processed into cocoa powder and sold to local beverage manufacturers.

Local buying agents purchase beans from farmers using bicycles and motorcycles because of Nigeria's poor rural road network. Typically, the buying agents have their purchasing activity funded by regional cocoa merchants. The merchants deliver the beans to the state government produce inspection services for grading before delivering to exporters and processors. Most Nigerian cocoa is exported to Europe, with Belgium, the UK, Germany, and Netherlands being the largest export destinations.

## Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Tons

Commodity:			
Time period:	Oct-Sep		
Exports for	1999		2000
U.S.	40000	U.S.	35000
Others		Others	
European Union	108000		122000
Total for Others	108000		122000
Others not listed			
Grand Total	148000		157000

## Tariffs

Exports of Cocoa from Nigeria are not subject to export taxes. An official cocoa development levy of 5 dollars per ton is assessed against cocoa exported in bean form. However, regulatory enforcement is weak and most exporters avoid payment of this levy. A uniform grading fee of 3,000 Naira per ton was introduced in the last quarter of 1999 by the State-operated cocoa inspection services. The harmonization of this grading fee is designed to curb internal movement of cocoa beans across state borders previously encouraged by unequal grading fees among producing states. A number of other fees exist on cocoa at various stages of the production and marketing chain. These include a one-time merchant registration fee (20,000 Naira), a one-time warehouse inspection charge (5,000 Naira) and a 1,000 Naira per truck transport fee collected every time cocoa beans are moved on Nigeria's highways. These fees vary slightly from state to state.

## Policy

President Obasanjo inaugurated a new Cocoa Development Committee (CDC) on December 2, 1999, with a mandate to restore Nigeria to prominence in global cocoa production. The 27-member committee is chaired by the Minister of Agriculture. The Minister of Commerce, the Deputy Governors of the 13 cocoa producing states, and representatives of the Cocoa Research Institute and the Cocoa Association of Nigeria are also members. The Committee submitted to the Government a National Cocoa Development Program. The overall objective of the program, estimated to cost 1.6 billion Naira, is to increase Nigeria's cocoa production to 320,000 tons in the near-term and to 600,000 tons by 2006. The program has been accepted by the GON and the Committee has commenced work. An estimated 16,574 hectares of existing cocoa fields are targeted for rehabilitation by 2001. This will involve massive replanting of old cocoa trees, some of which were planted more than 40 years ago. Additionally, incentives will be provided for farmers

to replace old cocoa trees with hybrid varieties. Matching grants will be provided by the GON for cocoa producing states to raise seedlings for distribution to farmers at subsidized rates and the provision of improved extension services.

The GON has set up a commission of inquiry to probe the disbursement of \$22 million of the \$44.2 million disbursed to Nigeria in 1998 by the International Cocoa Organization following the liquidation of Nigeria's portion of the ICCO's buffer stock. The GON believes that these monies were improperly utilized/distributed in Nigeria and seeks to recover them to finance cocoa development activities.

Nigerian farmers strongly support a liberalized cocoa trade. They are keenly aware that Nigerian grower prices average close to 85 percent of world price levels, the highest percentage in the West African region.